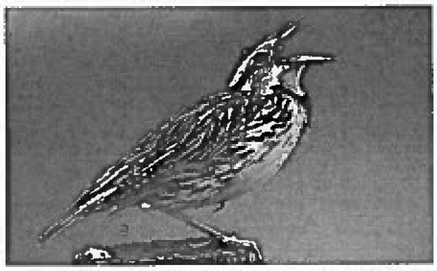

DATE: 23 November 2018
FROM: Christopher Graham
RE: SJR O ("The Agreement" of 10 October)

Hi, Folks –

I here continue comment about provisions of "the agreement" that propose changing various provisions having to do with the Recreation Passport and would propose ballot language to change the Constitution -- both having an impact on State Parks funding.

In these considerations the main concerns (were last year and remain) not damaging State Parks funding, in the short or long term. This point of view continues to be important because most people (probably even Legislators) have no idea that there are serious, long-standing structural financial problems for State Parks.

Among those are a bona fide $270M major repair/capital expenditure list that is composed of urgent items – developed over the last 20 years of serious shortfalls in overall State Parks funding (see Sefton, Senate Fiscal Agency report, Feb 15).

Recommendations:

1. Craft language for changes to the Recreational Passport legislation and present a draft to State Parks Citizen's Advisory Committee for review before introduction. These changes are likely to be complicated. The Committee needs to be fully on board if passage is wanted.
2. Make certain that increase in funding from net Passport revenues to local parks are paid for by increased earnings from the Passport, if legislation (procedure for checkoff) is changed and the changes produce more revenue.
3. Ignore the suggestion in "the agreement" to regulate capital disbursements from the Michigan State Parks Endowment Fund (MSPEF). State Parks will spend much more than that, unless they absolutely cannot. There is no need for the restriction.
4. Changes to Michigan Natural Resources Trust Fund (MNRTF) disbursement recipe seem OK as suggested in "the agreement."
5. A key: When the MSPEF corpus reaches its cap, maintain a $10M per year distribution (not added to the corpus, not restricted) to State Parks from oil and gas revenues, in perpetuity -- like the amount that was given to State Parks between

1994 and the cap of the MNRTF. This was not proposed in "the agreement" and needs to be part of actions taken.

6. "The agreement" suggests the ballot language would return the balance of oil, gas, royalty revenues to the MNRTF, in perpetuity (less 5 above), which is otherwise OK, fair and reasonable.
7. Make certain all undistributed earnings and interest from the MSPEF corpus each year are retained in the Fund, in perpetuity (not returned to the GF/GP or some other place in the State budget (the corpus would grow past the cap this way). The corpus of the MSPEF needs also to be able to grow if gifts are made, etc.
8. Begin a dialogue ASAP about what to do about State Park operational funding, which cannot be adequately supported from user fees.

Why these suggestions:

Most people in Michigan are not aware that in FY 2002 all remaining General Fund/General Purpose (GF/GP) funding for Parks was cut to zero, and most outside sources for capital spending dried up soon thereafter.

That action nearly drove the State Parks system to "bankruptcy." It caused much cost and employee reductions, caused the Legislature to have to appoint a Citizen's Advisory Committee to seek funding solutions, caused much anxiety about how to continue State Parks, which would begin to be closed.

Most people don't understand that the change from Motor Vehicle permits to the Recreation Passport (an idea developed by the Committee based on an Idaho model) did not solve State Park funding problems. Though participation has increased since the first year (when it produced even less revenue than the MVP's), income is now up from what MVP's would have produced. The State Parks funding problem was improved somewhat, not solved. The changes proposed in "the agreement" will not solve them either.

Just to give a measuring stick: In the 1970's GF/GP funding for the State Parks system was in the range of $70M plus. In those days there were also significant Federal and State grants and bonds which helped with capital needs.

If adjusted for inflation since then, GF/GP funding for State Parks this year would be greater than $300M! Instead GF/GP funding for State Parks is still zero (except for a few million dollars recently given for work on Belle Isle).

Today's total State Park budget is only again about $70M (in 2018 dollars) -- <u>including</u> funds from oil and gas revenues since the MNRTF corpus reached its cap. State Parks are doing better than they were. We are very thankful!

Changes proposed in "the agreement" would cause the Passport to be "opt out" rather than its current "opt in." That would mean our customers now given a choice to participate/support State Parks when they purchase license plates would have to actively choose not to participate in some way.

It is not clear how this would be done. It should be made clear in draft legislation. The State Parks Advisory Committee should review that language and those ideas prior to introduction to the Senate.

It may be true that changes to the Passport legislation, if made, would create more income for State Parks. If so, State Parks could probably afford a greater percentage (10% up to 15%) of Passport net revenue be given in grants to local parks.

The fact remains, "the agreement" does not fix chronic State Park funding problems, in the short run for capital needs, in the long run for operational needs. We need to have a conversation about this as soon as possible (it would be preferable to have it while discussions about "the agreement" are going on.

Key parts of "the agreement" would propose language to amend the Constitution, where the parameters for the two Trust Funds reside.

"The agreement" proposes that the spending "recipe" for Michigan Natural Resources Trust Fund grants be altered, to permit a greater percentage of MNRTF grants be spent on development projects (less on land acquisition projects). There seems to be a consensus that this is OK. This appears to be a main motivation behind "the agreement."

But, very importantly for State Parks, "the agreement" would also direct all oil, gas, mineral royalty funds flow back to the MNRTF once the MSPEF corpus reaches its cap ($800M.) That would drop State Park funding off a cliff in one future year ($30M + per year to zero (as did the SJR O proposal of a year ago).

True, there is no indication in the Constitution as to what happens when the MSPEF reaches its cap, other than that it will be "provided by law." That needs, at some point, to be fixed.

Not doing so would mean the money would be used by the Legislature for any purpose. That would not be a favorable outcome for those of us who have for nearly 60 years supported the now iconic Natural Resources Trust Fund idea.

Thanks to widely supported updates to the Constitution in 1994, the MSPEF was established, and the provision began to send $10M a year of oil and gas revenues to the MSPEF, half of which could be spent on operations, expenses, maintenance (half goes to the corpus). After 2002, this money was a life saver for our State Parks system!

The full flow of oil, gas, royalty, and lease revenues began to flow to State Parks in about 2012, which has eased the problems for State Park funding.

Would it be OK to end that funds flow of (on average $30M + per year completely), when the MSPEF corpus reaches its cap?

No, not without other answers. Ideally those answers could come as part of the legislative process related to "the agreement." That would be a more comprehensive discussion, if any at all is to be had now about State Parks funding.

Yes, is true that at the MSPEF corpus cap there would be some $40M available each year for (much preferably) acquisition, capital and major repair items. That is a reasonable and manageable number for State Parks at our current size.

But operations cannot be adequately supported from user fees. They are not now. They will not be when the MSPEF corpus reaches its cap, without changes.

Looking forward, the structural funding problems for State Park operations appear to grow more difficult in coming years, not less. Even if the Passport is changed, it's growth will slow to a rate lagging inflation. It will never grow in participation to high percentage levels (unless participation is mandatory, which would make many people unhappy).

The rapid growth of camping fees in recent years is now slowing and will also plateau, lagging inflation. We can't charge more than a nice motel room, and we can't charge more when we are not offering facilities that are not up to date (which many are not).

All operational expenses will continue to inflate, perhaps a lot more than inflation for health care and for capital and major repair expenses (the national infrastructure inflation rate holds steady at about 7% per year).

What to do?

As recommended – we should propose funding solutions to the structural problems State Parks now face, and will continue to face, as part of discussions about how to implement "the agreement." If not now, then when?

If not now, but Constitutional proposals are still to be made for the ballot, then we should retain the $10M funds flow from oil and gas revenues to State Parks in perpetuity, after the MSPEF corpus reaches its cap.

Thank you

Please note: Christopher Graham has been a member of the Michigan State Parks Citizen's Advisory Committee since its inception. He was a long-time member of the Fish and Wildlife Trust Fund Advisory Board, including serving as its Chair. In both cases he was/is a representative the Michigan Environmental Council. These comments are his own, not the Committee's, or MEC's.